

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Mass Transportation Authority	County Genesee
Audit Date 9/30/05	Opinion Date 2/3/06	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

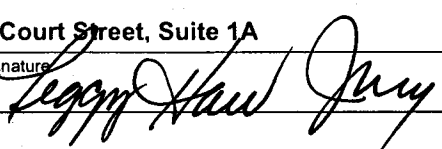
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Plante & Moran, PLLC			
Street Address 111 East Court Street, Suite 1A		City Flint	State MI
Accountant Signature 		ZIP 48502	Date 3/18/06

Financial Statements

**Mass Transportation Authority
1401 South Dort Highway
Flint, Michigan 48503**

September 30, 2005 and 2004

with Independent Auditors Report

Mass Transportation Authority
Governing Committee and Administration

September 30, 2005

Governing Committee

Chairman
Vice Chairman
Secretary/Treasurer

Michael Zelley
John W. Northup
Richard Abrams

Board Members:

Robert Allen
Joe Conroy
Richard Hammel
Paul Luthenbacher
Carolyn Sims

Administration

General Manager
Assistant General Managers:
 Administration
 Operations
 Services

Robert Foy

Jerry Ragsdale
Terry Jurrens
Ed Benning

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Financial Section

Independent Auditors' Report

Board of Directors
Mass Transportation Authority
1401 South Dort Highway
Flint, Michigan 48503

We have audited the accompanying basic financial statements of the Mass Transportation Authority (MTA), as of and for the year ended September 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Mass Transportation Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Mass Transportation Authority as of September 30, 2004, were audited by BKR Dupuis & Ryden, whose report dated January 14, 2005, expressed an unqualified opinion on those statements. BKR Dupuis & Ryden merged into Plante and Moran, PLLC effective July 1, 2005.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and governmental auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provided a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mass Transportation Authority at September 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 3, 2006 on our consideration of Mass Transportation Authority's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements. The fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The other accompanying financial information, listed as schedules in the table of contents, is also presented for the purposes of additional analysis and is not a required part of the basic financial statements of the Mass Transportation Authority. The information in the schedule of expenditures of federal awards and Schedules I through VI have been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The information in Schedule VII has not been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, accordingly, we express no opinion on it.

Plante & Moran PLLC

February 3, 2006

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Mass Transportation Authority ("Authority"), we offer readers of the Authority's basic financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended September 30, 2005. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Overview of Financial Highlights

- The Authority has net assets of \$35.5 million at fiscal year end 2005. These net assets result from the difference between total assets of \$40.6 million and total liabilities of \$5.1 million.
- Current assets of \$5.4 million primarily consist of non-restricted cash and investments of \$2.0 million; government receivables of \$2.3 million; and inventory of \$.8 million.
- Current liabilities of \$4.5 million primarily consist of government payables of \$.5 million; accounts payable of \$.8 million; accrued compensation of \$.6 million; line of credit of \$2 million, and other payables of \$.6 million.

Basic Financial Statements and Presentation

The basic financial statements presented by the Authority are the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These statements are presented using the economic resources measurement focus and the accrual basis of accounting. The Authority is structured as a single enterprise fund with revenues recognized when earned and measurable, not when received. Expenses are recognized when they are incurred, not when paid. Capital assets are capitalized and depreciated, except land, over their estimated useful lives.

The Balance Sheet presents information on all the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases in assets without a corresponding increase to liabilities results in increased net assets, which indicate improved financial position.

The Statement of Revenues, Expenses and Changes in Net Assets present information showing how the Authority's net assets changed during the year. This statement summarizes operating revenues and expenses along with non-operating revenues and expenses. In addition, this statement lists capital grant revenues received from federal, state and local governments.

The Statement of Cash Flows allows financial statement users to assess the Authority's adequacy or ability to generate sufficient cash flows to meet its obligations in a timely manner. The statement is classified into four categories: 1) Cash flows from operating activities, 2) Cash flows from non-capital financing activities, 3) Cash flows from capital and related financing activities, and 4) Cash flows from investing activities.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis of the Authority

Condensed Summary of Net Assets

The Authority issued comparative financial statements in 2005.

	<u>2005</u>	<u>2004</u>
Current assets	\$ 5,391,621	\$ 5,014,779
Capital assets (net of accumulated depreciation)	<u>35,282,191</u>	<u>39,456,749</u>
Total assets	<u>\$40,673,812</u>	<u>\$44,471,528</u>
Current liabilities	\$ 4,492,454	\$ 5,821,633
Non-current liabilities	<u>643,137</u>	<u>846,092</u>
Total liabilities	<u>\$ 5,135,591</u>	<u>\$ 6,667,725</u>
Net assets:		
Invested in capital assets	\$35,249,444	\$39,456,749
Restricted	118,687	31,780
Unrestricted (deficit)	<u>170,090</u>	<u>(1,684,725)</u>
Total net assets	<u>\$35,538,221</u>	<u>\$37,803,804</u>

The largest portion of the Authority's net assets reflects investment in capital assets consisting of buses and operating facilities. The Authority uses these capital assets to provide public transportation services for the Genesee County area.

Condensed Summary of Revenues, Expenses and Changes in Net Assets

	<u>2005</u>	<u>2004</u>
Operating revenues (expenses)		
Operating revenues	\$ 2,788,869	\$ 2,616,199
Operating expenses, excluding depreciation	(23,119,280)	(19,896,775)
Depreciation expense	<u>(5,633,353)</u>	<u>(5,934,004)</u>
Operating loss	<u>(25,963,764)</u>	<u>(23,214,580)</u>
Non-operating revenues (expenses)		
Property tax revenues	8,878,619	4,804,480
State grants and reimbursements	7,937,038	8,121,227
Federal grants and reimbursements	5,437,524	4,184,649
(Loss) gain on sale of capital asset	(4,011)	57,083
Investment income	<u>18,958</u>	<u>3,994</u>
Total non-operating revenues	<u>22,268,128</u>	<u>17,171,433</u>
Capital grant revenue	<u>1,430,053</u>	<u>6,129,781</u>
Increase (decrease) in net assets during the year	(2,265,583)	86,634
Net assets, beginning of year	<u>37,803,804</u>	<u>37,717,170</u>
Net assets, end of year	<u>\$ 35,538,221</u>	<u>\$ 37,803,804</u>

Capital Assets

Capital Assets

The Authority's investment in capital assets for as of September 30, 2005 amounts to \$39.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, construction in progress, leasehold improvements, revenue equipment, maintenance and garage equipment, service cars and furniture and fixtures. Additional information on the Authority's capital assets can be found in Note 3 on page 22 of this report.

	<u>2005</u>	<u>2004</u>
Land	\$ 1,909,705	\$ 1,895,925
Construction in progress	4,416,474	3,548,064
Buildings	20,825,587	22,294,393
Leasehold improvements	29,374	31,929
Revenue equipment	7,429,290	11,125,452
Maintenance and garage equipment	117,103	132,309
Service cars	48,320	4,235
Furniture and fixtures	468,911	424,443
Capital asset under lease	37,427	-
Total	<u>\$35,282,191</u>	<u>\$39,456,750</u>

Para Transit Centers

The Authority is making a significant investment for the construction of local Para Transit Centers over a three-year period. These centers are designed to improve customer service by offering our riders convenient local facilities. Comfortable waiting areas and time-coordinated service will make it more convenient for riders to secure transportation. These facilities will also serve as vehicle fueling and storage units, furthering the efficiency of operations.

Capital Operating Expenses and Other Expenses

Capital operating expenses for fiscal 2005 were \$3.8 million compared to \$4.2 million for fiscal 2004.

These operating costs are budgeted and are reimbursable by the Federal and State governments.

Financial Operating Results

Revenues

Operating revenues are summarized into the following categories:

Passenger Fares – Farebox receipts and special transit fares are included here. The overall decrease over the previous year reflects the loss of the student transportation contract and the down turn in the local economy.

Advertising and Concessions – Fees derived from the contractual agreement to have advertisements on the buses are included here. This category also summarizes various rental activities of the MTA. This includes the rental of a radio tower, and other facilities.

Property Tax – This dedicated .4 mill tax is levied in Genesee County, and an additional .6 mill is levied in the City of Flint. In August 2004, an additional county-wide .4 mill was approved. Therefore the total dedicated tax levy for Genesee County is .8 mills. For 2005 and 2004, approximately 15% of the Authority's revenues used for operations came from the county-wide tax and 8% from the City of Flint.

Federal Grants and Reimbursements – The Authority utilized \$ 2.4 million in Section 5307 capital funds to reimburse the costs of preventive maintenance and certain inventory purchases. Other specific grants are awarded as incentives to expand and enhance services to select clients, or to achieve other operational goals.

State Operating Grants – The Michigan Department of Transportation allocates grants for operating assistance based on expenses submitted by all Michigan transit agencies. This assistance cannot amount to less than what was allocated in 1997. The MTA is currently at this 1997 funding amount, which is referred to as the "Floor". Other specific grants are awarded as incentives to expand and enhance services to select clients.

Expenses

Labor and Fringe Benefits – These personnel costs accounted for approximately 69% and 70% of all the Authority operating expenses (excluding depreciation) in 2005 and 2004, respectively. This proportion is consistent with past years' experiences.

Services – This account consists of legal fees, auditor's fees, and office equipment maintenance services.

Materials and Supplies – Fuel and fluids for all vehicles, in addition to the parts to maintain and repair the fleet account for the majority of this classification. Office and general maintenance supplies account for the remaining.

Insurance – The MTA is partially self-insured; therefore this account represents both the direct payments to claimants as well as premiums due for excess coverage. In addition, the MTA is required to accumulate a fund balance to support its self-insurance program. The cost of excess coverage has greatly increased in this area, causing the MTA to restructure coverage, and assume additional exposure.

Economic Factors and Deficit Elimination Plan in Process

In the years 2001 and prior the Mass Transportation Authority had accumulated an operating deficit of \$4.1 million. These deficits were primarily the results of changes in Federal and State operating assistance over this period. The Mass Transportation Authority established the elimination of the deficit as a primary goal for the period through FY 2005. This goal was met during fiscal 2005.

The City of Flint is going through a period of transition. As manufacturing jobs are being lost in the City, the tax base finds it difficult to maintain the current level of services. At the same time good paying job opportunities have developed in counties surrounding Genesee County, therefore the need for regional transportation has become evident.

In the county, the property values are extremely reasonable when compared to the surrounding area. This has created an influx of home ownership in Genesee County where the resident works in one of the surrounding counties. The number of housing complexes that cater to the elderly is increasing significantly. Both of these factors have led to increased ridership in the out-county. The increase in gas prices to be paid by individuals in fiscal 2005 also fostered an increase in ridership.

The expansion of the national economy has not generated adequate revenues to meet Federal budget needs. Similarly at the State level, budget deficits are having an impact on the ability to fund transportation programs at previous levels. Both of these factors are the impetus for the Mass Transportation Authority to expand our local financial commitment.

In addition to an expanded local financial participation, it is essential that public service organizations partner with each other to eliminate the duplication of transportation services. The Mass Transportation Authority is in the process of partnering with other organizations in an effort to expand our customer base. An expanded customer base will be necessary to maintain the present level of services as State and Federal subsidies are reduced.

The combination of these factors will lead to MTA efforts to expand our customer base in the City of Flint, provide additional services in the out-county areas and increase the local financial participation of the local communities.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for those with an interest in its finances. Questions concerning any of the information in this report or requests for additional financial information should be addressed to Robert J. Foy, General Manager, Mass Transportation Authority, 1401 S. Dort Highway, Flint, Michigan 48503.

Basic Financial Statements

**Mass Transportation Authority
Balance Sheets
September 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Assets		
Current assets:		
Cash	\$ 964,189	\$ 313,794
Investments	1,085,052	838,284
Accounts receivable	93,370	152,090
Due from federal government	226,106	1,122,502
Due from state government	1,595,098	1,313,094
Due from local government	452,900	455,982
Inventories	760,483	606,083
Prepaid expenses	214,423	212,950
	<u>5,391,621</u>	<u>5,014,779</u>
Total current assets		
Capital assets:		
Land	1,909,705	1,895,925
Construction in progress	4,416,474	3,548,064
Buildings	33,743,504	33,743,504
Leasehold improvements	50,518	50,518
Revenue equipment	41,286,931	41,261,974
Maintenance and garage equipment	1,054,842	1,024,073
Service vehicles	382,438	292,474
Furniture and fixtures	3,745,906	3,525,402
Capital asset under lease	84,207	-
	<u>86,674,525</u>	<u>85,341,934</u>
Total capital assets		
Less accumulated depreciation	<u>(51,392,334)</u>	<u>(45,885,185)</u>
Capital assets - net	<u>35,282,191</u>	<u>39,456,749</u>
Total assets	<u><u>\$ 40,673,812</u></u>	<u><u>\$ 44,471,528</u></u>

See notes to financial statements.

	2005	2004
Liabilities and Net Assets		
Current liabilities:		
Due to other funds	\$ 98,235	\$ 103,864
Due to state government	550,018	1,495,178
Accounts payable	876,487	1,373,139
Current portion of self insurance liabilities	349,868	-
Accrued salaries and wages	257,492	542,051
Compensated absences	327,607	307,401
Line of credit	2,000,000	2,000,000
Capital lease payable	32,747	-
Total current liabilities	<u>4,492,454</u>	<u>5,821,633</u>
Non-current liabilities		
Accounts payable	13,349	37,439
Self insurance liabilities	<u>629,788</u>	<u>808,653</u>
Total non-current liabilities	<u>643,137</u>	<u>846,092</u>
Total liabilities	<u>5,135,591</u>	<u>6,667,725</u>
Net assets:		
Invested in capital assets	35,249,444	39,456,749
Restricted for:		
Self Insurance	118,687	31,780
Unrestricted (deficit)	<u>170,090</u>	<u>(1,684,725)</u>
Total net assets	<u>35,538,221</u>	<u>37,803,804</u>
Total liabilities and net assets	<u>\$ 40,673,812</u>	<u>\$ 44,471,529</u>

Mass Transportation Authority
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended September 30, 2005 and 2004

	2005	2004
Operating revenues:		
Passenger fares	\$ 2,502,400	\$ 2,282,364
Advertising and concessions	286,469	333,835
Total operating revenues	<u>2,788,869</u>	<u>2,616,199</u>
Operating expenses:		
Labor	10,103,755	8,802,937
Fringe benefits	5,901,324	5,213,104
Services	1,292,153	1,096,666
Materials and supplies	3,715,811	2,600,066
Utilities	604,666	628,904
Insurance	704,092	1,066,015
Taxes and fees	257	6,015
Miscellaneous	540,653	142,965
Interest expense	107,268	60,564
Leases and rentals	149,301	279,539
Total operating expenses excluding depreciation	<u>23,119,280</u>	<u>19,896,775</u>
Operating loss before depreciation expense	(20,330,411)	(17,280,576)
Depreciation expense	5,633,353	5,934,004
Operating loss	<u>(25,963,764)</u>	<u>(23,214,580)</u>
Non-operating revenues:		
Property tax revenue	8,878,619	4,804,480
State of Michigan operating grants:		
Urban operating assistance	5,109,089	5,109,089
Non-urban operating assistance	304,808	331,312
Operating assistance 1999 reconciliation	-	(98,964)
Project Zero	380,628	918,230
Job Access	1,526,738	743,445
Capital grants used for operations	259,764	834,144
Amtrack marketing	85,664	-
Federal security/emergency management	10,841	-
Specialized services	259,506	283,971
Federal operating grants:		
Job Access/Reverse Commute	1,526,738	743,445
Section 5311 operating assistance	81,167	80,045
Capital grants used for operations	3,548,311	3,336,575
FTA Section 8 - Ridership study	53,137	22,704
Federal security/emergency management	228,171	1,880
Loss on sale of capital asset	(4,011)	57,083
Interest income	18,958	3,994
Total non-operating revenues	<u>22,268,128</u>	<u>17,171,433</u>
Net loss before capital grant revenue	(3,695,636)	(6,043,147)
Capital grant revenue:		
Federal	1,144,042	4,905,411
State	286,011	1,226,353
Prior year capital grant items reclassified to expense	-	(1,983)
Total capital grant revenue	<u>1,430,053</u>	<u>6,129,781</u>
Increase (decrease) in net assets	(2,265,583)	86,634
Net assets, beginning of the year	37,803,804	37,717,170
Net assets, end of the year	<u>\$ 35,538,221</u>	<u>\$ 37,803,804</u>

See notes to financial statements.

Mass Transportation Authority
Statements of Cash Flows
For the Years Ended September 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Cash received from customers	2,847,589	\$ 2,550,216
Cash payments to suppliers for goods and services	(7,619,810)	(5,680,068)
Cash payments to employees for services	(16,269,432)	(14,121,874)
	<u>(21,041,653)</u>	<u>(17,251,726)</u>
Net cash used in operating activities		
Cash flows from capital and related financing activities:		
Principal payments on capital lease	(51,460)	-
Cash received from sale of capital assets	-	57,079
Cash received from capital grants	5,852,518	4,937,953
Additions to property and equipment	(1,378,599)	(5,305,615)
	<u>4,422,459</u>	<u>(310,583)</u>
Net cash (used in) provided by capital and related financing activities		
Cash flows from non-capital financing activities:		
Cash received from operating federal grants	1,889,213	4,146,464
Cash received from operating state grants	6,732,114	6,632,568
Cash received from taxes	8,881,701	4,767,115
Cash received (payments) on line of credit	-	2,000,000
Retiree benefits paid from reserve proceeds	(5,629)	(5,629)
	<u>17,497,399</u>	<u>17,540,518</u>
Net cash provided by non-capital financing activities		
Cash flows from investing activities:		
Investment income	18,958	3,994
Purchase of investments	(246,768)	(53,993)
	<u>(227,810)</u>	<u>(49,999)</u>
Net cash used in investing activities		
Net increase (decrease) in cash	650,395	(71,790)
Cash at beginning of year	313,794	385,584
Cash at end of year	<u>\$ 964,189</u>	<u>\$ 313,794</u>

See notes to financial statements.

(continued)

Mass Transportation Authority
Statements of Cash Flows (continued)
For the Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (25,963,764)	\$ (23,214,580)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	5,633,353	5,934,004
Changes in operating assets and liabilities:		
Accounts receivable	58,720	(29,943)
Inventories	(154,400)	(1,042)
Prepaid expenses	(1,471)	109,943
Accounts payable	(349,738)	55,727
Accrued salaries and wages and compensated absences	(264,353)	(105,835)
Total adjustments	<u>4,922,111</u>	<u>5,962,854</u>
Net cash used in operating activities	<u>\$ (21,041,653)</u>	<u>\$ (17,251,726)</u>
Noncash investing, capital and financing activities:		
Capital asset was purchased with a capital lease	\$ 84,207	\$ - 0 -
Interest paid	<u>\$ 107,268</u>	<u>\$ 60,564</u>

See notes to financial statements.

Fund Financial Statements

**Mass Transportation Authority
Pension Trust Funds
Combining Statements of Net Assets
September 30, 2005 and 2004**

	2005		
	Pension Trust		Totals
	Hourly Plan	Management Plan	
Assets			
Cash value of insurance policies	\$ -	\$ -	\$ -
Investments	3,074,673	2,113,747	5,188,420
Due from other funds	-	98,235	98,235
Total assets	<u>\$ 3,074,673</u>	<u>\$ 2,211,982</u>	<u>\$ 5,286,655</u>
Net Assets			
Held in trust for pension benefits	\$ 3,074,673	\$ 2,175,727	\$ 5,250,400
Held in trust	-	36,255	36,255
Total net assets	<u>\$ 3,074,673</u>	<u>\$ 2,211,982</u>	<u>\$ 5,286,655</u>

See notes to financial statements.

2004

Pension Trust		
Hourly Plan	Management Plan	Totals
\$ -	\$ 3,514	\$ 3,514
2,839,073	1,819,774	4,658,847
-	103,864	103,864
<u>\$ 2,839,073</u>	<u>\$ 1,927,152</u>	<u>\$ 4,766,225</u>

\$ 2,839,073	\$ 1,885,269	\$ 4,724,342
-	41,884	41,884
<u>\$ 2,839,073</u>	<u>\$ 1,927,153</u>	<u>\$ 4,766,226</u>

**Mass Transportation Authority
Pension Trust Funds
Combining Statements of Changes in Fiduciary Net Assets
For the Years Ended September 30, 2005 and 2004**

	2005		
	Pension Trust		
	Hourly Plan	Management Plan	Totals
Additions:			
Contributions	\$ 294,370	\$ 278,952	\$ 573,322
Investment income	141,966	242,143	384,109
Total additions	436,336	521,095	957,431
Deductions:			
Participant distributions	200,736	236,266	437,002
Total deductions	200,736	236,266	437,002
Change in net assets	235,600	284,829	520,429
Net assets, beginning of year	2,839,073	1,927,153	4,766,226
Net assets, end of year	\$ 3,074,673	\$ 2,211,982	\$ 5,286,655

See notes to financial statements.

2004

Pension Trust		
Hourly Plan	Management Plan	Totals
\$ 252,974	\$ 266,100	\$ 519,074
134,029	126,780	260,809
387,003	392,880	779,883
185,203	107,085	292,288
185,203	107,085	292,288
201,800	285,795	487,595
2,637,273	1,641,358	4,278,631
\$ 2,839,073	\$ 1,927,153	\$ 4,766,226

Notes to Financial Statements

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2005 and 2004**

1. Summary of significant accounting policies

The accounting policies of MTA conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant policies:

A. Reporting entity

The Mass Transportation Authority (MTA) was incorporated September 27, 1971, under the provisions of the Mass Transportation System Authorities Act, Act 55 of the Public Acts of Michigan of 1963. The Authority provides public transportation to the general public in the City of Flint and Genesee County area. The Authority is managed by a governing committee consisting of the City administrator of the City of Flint, or his or her designee; Ten United States citizens including the following: Chairperson of Genesee County Board of Commissioners, or another County Commissioner designated by the Chairperson; Representative of Genesee County Chapter of the Michigan Township Association; Representative of Genesee County Chapter of Small Cities and Villages Association; Representative of the education community designated by Flint Schools Superintendent; President of the Flint City Council or his or her designee; County Commissioner selected by the Genesee County Board of Commissioners; Two Flint residents appointed by the Mayor with concurrence of the Flint City Council; One Flint resident appointed by the Flint City Council; One Genesee County resident appointed by the Genesee County Board of Commissioners. The respective representatives of the Township Association and the Small Cities and Villages Association shall be selected, from among at least three persons nominated by the Association, by the Board of County Commissioners.

The Authority is not subject to federal or state income taxes.

Component units:

"The Financial Reporting Entity", as defined by Statement No. 14 of the Governmental Accounting Standards Board (GASB), is comprised of the primary government and its component units. The primary government includes all departments and operations of the MTA which are not legally separate organizations. Component units are legally separate organizations which are fiscally dependent on MTA or for which MTA is financially accountable. An organization is fiscally dependent if it must receive MTA's approval for its budget, the levying of taxes or the issuance of debt. MTA is financially accountable for an organization if it appoints a majority of the organization's board, and either a) has the ability to impose its will on the organization or b) there is the potential for the organization to provide a financial benefit to or impose a financial burden on the Authority. The reporting entity of MTA consists solely of the primary government. There are no component units.

Under the guidelines of GASB Statement No. 14, MTA is a jointly governed organization as detailed above. None of the participating governments appoints a majority of MTA's board and none has an ongoing financial interest or responsibility. None of the participating governments provided any support or had any significant financial transactions with MTA during fiscal 2005.

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2005 and 2004**

1. Summary of significant accounting policies – (continued)

B. Basis of accounting

The accounts of MTA, which are organized as an enterprise fund, are used to account for MTA's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the MTA maintains its records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

Non-exchange transactions, in which MTA receives value without directly giving equal value in return, include property tax revenue and grants. On an accrual basis, revenue from property taxes is recognized in the current fiscal year. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to MTA on a reimbursement basis.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting", private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. MTA also has the option of following subsequent private-sector guidance, subject to this same limitation. MTA has elected not to follow subsequent private-sector guidance as it relates to its operations.

C. Cash investments, annuities, and insurance policies

Investments are stated at cost which approximates market. Annuities and insurance policies related to the deferred compensation and pension plans are stated at cash surrender value. For purposes of the cash flows statement, all highly liquid short-term investments with a maturity of less than 90 days at time of purchase are classified as cash and cash equivalents.

D. Inventories

Inventory consists of maintenance parts, repair parts, operating and office supplies, and fuel used in the operation of the transit system. Inventories are recorded at average cost. In accordance with industry practice, all inventories are classified as current assets even though a portion of the inventories are not expected to be utilized within one year.

E. Prepaid expenses

Prepaid expenses are payments made to vendors for services that will benefit periods beyond September 30, 2005 and 2004.

F. Accounts receivable

No allowance for bad debts is included in the financial statements as MTA considers all receivables collectible.

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2005 and 2004**

1. Summary of significant accounting policies – (continued)

G. Capital assets

MTA defines capital assets as assets with an initial cost of at least \$5,000 and a useful life of more than one year. Capital assets are stated at cost or fair market value at date of gift. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized.

Provisions for depreciation of building, improvements, and equipment are computed on the straight-line method. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20-30 years	Maintenance and garage equipment	5-10 years
Building improvements	10-30 years	Service cars	3-6 years
Revenue equipment	4-12 years	Furniture and fixtures	4-10 years

H. Cost allocation plan

The Mass Transportation Authority has three cost allocation plans approved by the Bus Transit Division of the Michigan Department of Transportation for maintenance, the non-urban grant and for charter rates. These plans have been adhered to in the preparation of the financial statements.

I. Net assets – Equity displayed in three components

Invested in capital assets, net of related debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is MTA's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

J. Classifications of revenues

MTA has classified its revenues as either operating or non-operating. Operating revenue includes activities that have the characteristics of exchange transactions including passenger fares, advertising, and rental revenue. Non-operating revenue includes activities that have the characteristics of non-exchange transactions, such as property tax proceeds and most federal, state, and local grants and contracts.

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2005 and 2004**

1. Summary of significant accounting policies – (continued)

K. Recognition of revenue and receivables

The federal government, through the Federal Transit Administration (FTA) and the Michigan Department of Transportation (MDOT), provide financial assistance and make grants directly to the Authority for operations and acquisition of property and equipment. Operating grants and special fare assistance awards made on the basis of entitlement periods are recorded as grant receivables and revenues over the entitlement periods. Capital grants for the acquisition of property and equipment (reimbursement type grants) are recorded as grant receivables and credited to non-operating revenues when the related capital expenditures are incurred. Capital grants for the maintenance of property, plant, and equipment are recorded as grant receivables and credited to non-operating revenues in the period operating expenditures are incurred.

L. Federal and State operating and preventive maintenance assistance funds

Federal and State operating and preventive maintenance assistance funds to be received by MTA under the Urban Mass Transportation Act of 1964, as amended, and under the Michigan Public Mass Transportation Grant Program are recorded and reflected as income in the period to which they are applicable.

M. Self-insurance liabilities and expense

MTA has a self-insurance program for general liability, property damage claims, and the workers' compensation claims.

Claims are accrued in the year the expenses are incurred, based upon the estimates of the claim liabilities made by management, legal counsel of MTA, and actuaries. Also provided for are estimates of claims incurred during the year but not yet reported.

Claims expense is accrued in the period the incidents of loss occur, based upon estimates of liability made by management with the assistance of third-party administration, legal counsel, and actuaries. Claims liability is the best estimate based on known information.

N. Passenger fares:

Passenger fares are recorded as revenue at the time services are performed.

O. Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Deposits and investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2005 and 2004**

2. Deposits and investments – (continued)

direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension trust fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations and certain other specified investment vehicles.

Effective March 8, 1999, the Authority adopted an investment policy. Funds of the Mass Transportation Authority will be invested in accordance with the Michigan Constitution and Public Act 55 of 1963 and Public Act 196 of 1997, in accordance with the following objectives, safety of principle, diversification, liquidity, and return of investment. In accordance with Michigan Public Act 55 of 1963 and Public Act 196 of 1997, the surplus funds of the Authority may be invested as follows:

Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, commercial paper, repurchase agreements, Bankers' acceptances of United States banks, Mutual funds, investment pools organized under the surplus funds investment pool act, 1982 PA 367, and investment pools organized under the local government investment pool act, 1985 PA 121.

Management's responsibility for the investment program is delegated to the "Investment Officer". The governing board of the Flint Mass Transportation Authority has designated the General Manager or the Finance Director as "Investment Officer".

The Authority maintains a list of eligible financial institutions authorized to provide investment services and a list of approved security broker/dealers selected by creditworthiness who are authorized and eligible to provide investment services in Michigan. No public deposit shall be made except in an eligible qualified institution. The Authority has designated two banks for the deposit of its funds.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At September 30, 2005 and 2004, the Authority had \$1,132,468 and \$540,369, respectively, of bank deposits (checking accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Mass Transportation Authority
Notes to Financial Statements
September 30, 2005 and 2004

2. Deposits and investments – (continued)

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority has invested in unrated money market funds however, the Authority's investment policy does require a thorough investigation of the fund prior to investing and on a continual basis. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name.

<u>Type of Investment</u>	<u>2004 Carrying Value</u>	<u>2005 Carrying Value</u>	<u>How Held</u>
Liquid assets money market fund	\$838,284	\$1,273,502	Counterparty

3. Capital assets

Capital asset activity for the year ended September 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 1,895,925	\$ -	\$ -	\$ 1,895,925
Construction in progress	218,360	3,329,704	-	3,548,064
Total capital assets, not being depreciated	2,114,285	3,329,704	-	5,443,989
Capital assets, being depreciated:				
Buildings	33,648,274	95,230	-	33,743,504
Leasehold improvements	50,518	-	-	50,518
Revenue equipment	39,387,853	2,491,848	(617,727)	41,261,974
Maintenance and garage equipment	968,969	57,394	(2,290)	1,024,073
Service cars	292,475	-	-	292,475
Furniture and fixtures	3,367,814	157,588	-	3,525,402
Total capital assets, being depreciated	77,715,903	2,802,060	(620,017)	79,897,946
Less accumulated depreciation:				
Buildings	10,119,606	1,329,505	-	11,449,111
Leasehold improvements	16,035	2,554	-	18,589
Revenue equipment	26,469,754	4,284,495	(617,727)	30,136,522
Maintenance and garage equipment	802,146	91,908	(2,290)	891,764
Service cars	269,359	18,881	-	288,240
Furniture and fixtures	2,894,298	206,661	-	3,100,959
Total accumulated depreciation	40,571,198	5,934,004	(620,017)	45,885,185
Total capital assets, being depreciated, net	37,144,705	(3,131,944)	-	34,012,761
Total capital assets, net	\$39,258,990	\$ 197,760	\$ -0-	\$39,456,750

Mass Transportation Authority
Notes to Financial Statements
September 30, 2005 and 2004

3. Capital assets – (continued)

Capital asset activity for the year ended September 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 1,895,925	\$ 13,780	\$ -	\$ 1,909,705
Construction in progress	3,548,064	868,410	-	4,416,474
Total capital assets, not being depreciated	5,443,989	882,190	-	6,326,179
Capital assets, being depreciated:				
Buildings	33,743,504	-	-	33,743,504
Leasehold improvements	50,518	-	-	50,518
Revenue equipment	41,261,974	181,167	(156,210)	41,286,931
Maintenance and garage equipment	1,024,073	30,769	-	1,054,842
Service cars	292,474	63,073	26,891	382,438
Furniture and fixtures	3,525,402	221,400	(896)	3,745,906
Capital assets under lease	-	84,207	-	84,207
Total capital assets, being depreciated	79,897,945	580,616	(130,215)	80,348,346
Less accumulated depreciation:				
Buildings	11,449,111	1,468,806	-	12,917,917
Leasehold improvements	18,589	2,555	-	21,144
Revenue equipment	30,136,522	3,873,318	(152,199)	33,857,641
Maintenance and garage equipment	891,764	45,975	-	937,739
Service cars	288,240	18,987	26,891	334,118
Furniture and fixtures	3,100,959	176,932	(896)	3,276,995
Capital asset under lease	-	46,780	-	46,780
Total accumulated depreciation	45,885,185	5,633,353	(126,204)	51,392,334
Total capital assets, being depreciated, net	34,012,761	(5,052,737)	(4,011)	28,956,012
Total capital assets, net	\$39,456,749	\$ (4,170,547)	\$ (4,011)	\$35,282,191

When assets are withdrawn from public transportation service, the grantee must remit to the grantor the grantor's pro-rata share of the fair market value as of the date the asset was withdrawn from service; should an asset be sold by the grantee, the grantee must remit to the grantor the grantor's pro-rata share of the proceeds less any amount specified as a service fee per the grant. However, if items of equipment have a current per-unit fair market value of less than \$5,000, the unit may be retained, sold, or otherwise disposed of with no further obligation to the grantor.

Included in the September 30, 2004 and 2005 construction in progress balance are costs associated with the Downtown Transfer Center and various service centers located throughout Genesee County.

At September 30, 2004 and 2005, there was no capitalized interest.

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2005 and 2004**

4. Leases

Operating leases:

MTA leases a storage facility with monthly payments totaling \$474. This lease expires at July 31, 2006.

MTA also has various leases on storage and/or terminal facilities on a month-to-month basis with payments ranging from \$567 to \$1,777.

The following is a schedule of future minimum rental payments under operating leases for the year subsequent to fiscal year ended September 30, 2004:

<u>Year Ending September 30,</u>	<u>Storage</u>
2006	\$ 5,688

Rent expense for the year ended September 30, 2005 and 2004, was as follows:

<u>Description</u>	<u>2005</u>	<u>2004</u>
Tires	\$ 17,631	\$ 40,695
Terminals/storage	149,301	279,539
	<u>\$166,932</u>	<u>\$320,234</u>

Capital lease:

MTA entered into a capital lease for software during early fiscal 2005. The future minimum payment due on the capital lease during 2006 is \$32,747. The capitalized lease has been separately shown in capital assets. Amortization of the capital asset for 2005 has been included in depreciation expense.

5. Lines of credit

The Authority has an unsecured line of credit agreement expiring June 30, 2006 with Bank One to borrow up to \$2,000,000. The interest on the line is charged at 80% of prime. (The prime interest rate at September 30, 2005 was 6.75%.) The balance due on the line of credit at September 30, 2005 and 2004 was \$2,000,000 for both years. The line of credit is payable solely from fare box revenues, contract revenues, and operating assistance revenues and not from taxes or special assessments.

Mass Transportation Authority
Notes to Financial Statements
September 30, 2005 and 2004

6. State grants

As of September 30, 2005, the Authority has contracted with State of Michigan D.O.T. for various grant monies. All of the monies that the Authority is now eligible to receive have not yet been disbursed to them as the projects have not yet been completed. Below is a schedule of activity under these state grants including state grants or portions of state grants for which funds are still available to the Authority:

a. State capital grants

<u>Grantor</u>	<u>Contract or Project #</u>	<u>Grant Amount</u>	<u>Amount Earned This Audit Period</u>	<u>Total Amount Earned</u>	<u>Amount Deobligated</u>	<u>Amount Remaining</u>
State of Michigan D.O.T.	1998-0887	\$1,041,386	\$ 2,128	\$1,041,386	\$ -	\$ -
State of Michigan D.O.T.	2000-0453	874,554	2,735	874,554	-	-
State of Michigan D.O.T.	2002-0066 Z4	1,031,829	10,154	1,031,829	-	-
State of Michigan D.O.T.	2002-0066 Z6	123,789	25,812	50,381	-	73,408
State of Michigan D.O.T.	2002-0066 Z7	259,883	600	81,335	-	178,548
State of Michigan D.O.T.	2002-0066 Z11	449,735	81	436,855	-	12,880
State of Michigan D.O.T.	2002-0066 Z12	1,059,712	188,816	1,017,631	-	42,081
State of Michigan D.O.T.	2002-0066 Z15	491,839	23,553	114,549	-	377,290
State of Michigan D.O.T.	2002-0066 Z16	704,732	95,101	601,047	-	103,685
State of Michigan D.O.T.	2002-0066 Z19	1,004,940	136,822	773,995	-	230,945
State of Michigan D.O.T.	2002-0066-219	606,796	29,931	29,931	-	576,865
State of Michigan D.O.T.	Unknown	49,031	11,427	11,427	-	37,604
State of Michigan D.O.T.	Unknown	413,586	22,151	22,151	-	391,435
State of Michigan D.O.T.	Unknown	128,000	-	-	-	128,000
Total state capital grants		8,239,812	549,311	6,087,071	-	2,152,741

NOTE – Grants completed prior to October 1, 2005, were deleted from this schedule.

b. State operating grants (excluding operating assistance, Job Access, and Project Zero)

State of Michigan D.O.T.	2002-0066 Z23	259,506	259,506	259,506	-	-
State of Michigan D.O.T.	2002-0066 Z21	10,848	10,841	10,841	-	7
State of Michigan D.O.T.	2005-0052	100,000	85,664	85,664	-	14,336
Total state assistance		\$8,610,166	\$ 905,322	\$6,443,082	\$ -0-	\$2,167,084

Mass Transportation Authority
Notes to Financial Statements
September 30, 2005 and 2004

7. Property taxes

For fiscal year 2003 through fiscal year 2006, .4 of a mill has been approved to be levied in each political jurisdiction within Genesee County. In August 2004, an additional County wide .4 mill levy was approved that became effective with the December 2004 and continues through the December 2008 tax levy. An additional .6 mill has been approved for levy for fiscal years 2001 - 2006 in the City of Flint over and above the property taxes levied county wide. Property taxes attach as an enforceable lien on property as of December 31. Taxes are levied on the following December 1 and are payable without penalty through February 28. The political jurisdictions within Genesee County bill and collect their own property taxes and remit payments to the Mass Transportation Authority. Real property taxes delinquent at March 1 are remitted from the county. Delinquent personal property taxes are remitted from the political jurisdictions when collected. Property tax revenues are recognized in the fiscal year levied to the extent they are measurable and available.

8. Risk management

The Mass Transportation Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Authority has purchased commercial insurance for property, boiler and machinery, crime, inland marine, public officials liability, employee dishonesty, underground storage tank liability, excess workers compensation, employee life, accidental death and dismemberment, short term disability, medical, and dental coverages. The Authority participated in the Michigan Transit Pool for claims relating to liability, no-fault and excess comprehensive coverage through December 1, 2000. MTA is self-insured for general liability, worker's disability compensation within its \$250,000 retention, for all physical damage to its vehicles and up to \$50,000 for comprehensive coverage, and for employee vision care. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

During May 1998, a magistrate entered an open award providing the widow of an MTA bus operator with weekly workmen's compensation benefits of \$141.33 for a total of 500 weeks. The total award of \$70,665 was recognized as a liability and expense at the time it was awarded. The remaining liability of \$18,090 is to be paid as follows: 2006 - \$7,349; 2007 - \$7,349; and 2008 - \$3,392.

Also during 2001, a claim filed in July 2000 by a bus operator was settled for \$65,000. A lump sum payment of \$35,000 was paid in November 2001. The balance is being paid at a rate of \$500 per month for 60 months starting October 1, 2001. The remaining liability of \$6,000 is to be paid in 2006.

MTA, pursuant to statutory authority, contracted with Cambridge Integrated Services Group, Inc. for third party administration of disputed worker's disability compensation claims. ASU Risk Management Services, LTD., serves as the claims facility for no fault and tort claims made for losses alleged to have occurred in connection with the operation of MTA - owned vehicles and facilities.

The Michigan Transit Pool risk pool program operates as a claims - servicing pool for amounts up to member retention limits, and operates as a common risk - sharing management program for losses in excess of member retention amounts for claim years through December 2000. Premiums have been paid annually to the Pool to be used to pay claims up to the MTA's retention limit. Pool members share proportionately in losses that exceed member retentions. The Pool was able to purchase commercial insurance on behalf of its members at a lower cost than was available on an individual basis.

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2005 and 2004**

8. Risk management – (continued)

The Michigan Transit Pool estimated the liability for auto and general liability claims that had been incurred through the end of December 31, 2000, including both those claims that have been reported as well as those that have not yet been reported to the Pool. The Pool will continue to estimate and administer the claims for years previous to December 2000. All funds on deposit with the Pool will continue to be held by the Pool until all claims for a specific year are settled. The Pool's fiscal year is December 1 - November 30.

Starting December 1, 2000, MTA hired the ASU Group to administer the liability claims, previously administered through the Michigan Transit Pool. An Internal Service Fund was established to account for this activity. An actuarial determination was completed to determine an estimate of the liability for incurred but not reported (IBNR) claims at September 30, 2004. The claim estimates are recorded as claims payable in the Self Insurance Internal Service Fund. The estimated liability as well as the total estimated costs (based on an actuarial calculation and claims presented) of claims for the past fiscal year for the Authority are as follows:

	<u>Fiscal Years Ended</u>	
	<u>2005</u>	<u>2004</u>
Estimated liability, beginning of year	\$ 808,653	\$ 639,422
Estimated claims incurred, including changes in estimates	444,777	572,551
Claims payments	<u>(623,642)</u>	<u>(403,320)</u>
Estimated liability, end of year	<u>\$ 629,788</u>	<u>\$ 808,653</u>

9. Contingencies/commitments

MTA participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for or including the years ended September 30, 2005 and 2004 have been conducted and have been reported in this annual report. However, the compliance audit reports have not yet been accepted by the grantor. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although MTA expects such amounts, if any, to be immaterial.

10. Post employment benefits

In compliance with current labor agreements and board resolution, the Authority provides medical coverage for retired hourly and salaried personnel age 65 and over. The supplement is not to exceed \$150 per month for retirees with 20 years of service or \$100 per month for retirees with 10 years of service. The supplemental amounts are only paid if a billing is presented by the retiree to MTA. MTA finances the plan on a pay-as-you-go basis. For fiscal years ending September 30, 2005 and 2004, there were 11 and 4 eligible retirees, respectively with a recorded expense of \$9,220 and \$6,000 for each year respectively.

11. Retirement plan - money purchase 401(a) pension plan

The Management Employees Retirement Plan is a single employer money purchase 401(a) pension plan which covers all management employees. The plan is accounted for in a pension trust fund and is administered by Mass Transportation Authority. There are no service or age requirements and employees are 100% vested after 5 years of service (0% vested prior to 5 years of service). (Employees are 100% vested in the employee rollover from the terminated defined benefit plan.) The plan is fully funded as it is MTA's policy to fund pension costs as it accrues.

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2005 and 2004**

11. Retirement plan - money purchase 401(a) pension plan – (continued)

Employer contributions are to be determined by the employer and may be changed from time to time. The employer is to advise plan participants in writing of the percentage and of any change in the percentage. Employee contributions are mandatory to receive the employer contribution. Employees are required to contribute 4% to participate in the employer match of 8%.

The plan has the right to recover overpayments made by the plan and to satisfy any claim arising from embezzlement or fraud committed by a participating, former participant, beneficiary, or other person who has a claim to an accumulated balance or any other benefit from the plan.

Employer and employee contributions were made as follows:

	<u>2005</u>	<u>2004</u>
Employer	\$186,031	\$177,400
Employee	92,921	88,700
Total	<u>\$278,952</u>	<u>\$266,100</u>

12. Retirement plan - Hourly Employees Defined Contribution Pension Plan

The Hourly Employees Retirement Plan is a single employer defined contribution plan which covers all full time hourly employees, who are members of AFSCME Michigan Council 25 Local 3437. The plan is accounted for in a pension trust fund and is administered by Mass Transportation Authority. There are no service or age requirements and employees are 100% vested after 5 years of service (0% vested prior to 5 years of service). The plan is fully funded as it is MTA's policy to fund pension costs as it accrues. Employees are required to contribute 4% to participate in the employer match of 4%.

Employer and employee contributions were made as follows:

	<u>2005</u>	<u>2004</u>
Employer	\$147,173	\$126,487
Employee	147,197	126,487
Total	<u>\$294,370</u>	<u>\$252,974</u>

13. Compensated absences

Vacation leave is earned in varying amounts depending on the number of years of service of an employee. Vacation leave is credited to hourly employees annually on the anniversary of their seniority date; for management employees, vacation credit is accrued monthly.

Earned vacation credit is payable at 100 percent to employees when they terminate employment up to a maximum of 320 hours.

**Mass Transportation Authority
Notes to Financial Statements
September 30, 2005 and 2004**

13. Compensated absences – (continued)

Vacation earned during the year is recorded as current fringe benefit expenses. At year end, each employee's accumulated leave is computed by applying his current (year end) rate of pay times total accumulated hours. The composite dollar total for all employees is entered in the enterprise fund as an accrued liability and fringe benefit expense.

The Authority does not grant sick leave time to its employees.

14. Deferred compensation

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to key officials and employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. During a previous year, the law was changed to allow trusts to be created for the plan assets, thereby, insulating the assets from the unit of government's general creditors. The Authority's plan administrator created the trust and placed the assets of the plan within the trust. As a result, the plan assets have been removed from the Enterprise Fund to reflect that the Authority no longer has any fiduciary or administrative responsibility for the plan.

15. Upcoming reporting changes

The Governmental Accounting Standards Board has released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pension*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending September 30, 2006. Management is currently assessing the impact of this new accounting standard on the Authority's financial statement for future reporting periods.

Supplementary Information

**Mass Transportation Authority
Operating Revenues
For the Years Ended September 30, 2005 and 2004**

	<u>2005</u>		<u>2004</u>	
		<u>Related Expenses</u>		<u>Related Expenses</u>
Operating revenues:				
Farebox:				
Fixed route	\$ 1,690,077		\$ 1,577,801	
Demand response	668,189		552,574	
Regional transportation	<u>144,134</u>		<u>151,989</u>	
	2,502,400		2,282,364	
Advertising	60,349	\$ -	29,778	\$ -
Rental	169,453	47,074	166,690	46,402
Parking lot and meters, lockers, chairs, and phones	18,685	-	30,296	763
Miscellaneous	<u>37,982</u>	-	<u>107,071</u>	-
Total operating revenues	<u>\$ 2,788,869</u>	<u>\$ 47,074</u>	<u>\$ 2,616,199</u>	<u>\$ 47,165</u>

Mass Transportation Authority
Operating Expenses
For the Year Ended September 30, 2005
With Comparative Totals For the Year Ended September 30, 2004

			General	Total System	
	Operations	Maintenance	Administration	2005	2004
Labor:					
Operator's salaries and wages	\$ 6,397,494	\$ -	\$ -	\$ 6,397,494	\$ 5,462,698
Other salaries and wages	598,490	1,824,178	1,139,627	3,562,295	3,192,211
Dispatcher salaries and wages	143,966	-	-	143,966	148,028
Fringe benefits	4,170,247	1,065,452	665,625	5,901,324	5,213,104
Services:					
Advertising fees	-	-	57,783	57,783	63,396
Other services	-	131,067	1,103,303	1,234,370	1,033,270
Materials and supplies consumed:					
Fuel and lubricants	1,791,845	10,736	-	1,802,581	1,102,834
Other materials and supplies	-	1,837,230	76,000	1,913,230	1,497,232
Utilities	-	-	604,666	604,666	628,904
Casualty and liability costs:					
Liability insurance	582,739	-	-	582,739	939,679
Other insurance	-	-	121,353	121,353	126,336
Taxes and fees	-	-	257	257	6,015
Miscellaneous expense:					
Travel, meetings, and training	-	-	34,071	34,071	16,645
Association dues and subscriptions	-	-	36,241	36,241	35,955
Lobbying	-	-	50,521	50,521	42,000
Other miscellaneous expenses	-	-	419,820	419,820	48,365
Interest expense:					
Interest on short-term debt	-	-	85,641	85,641	53,768
Interest on state advances	-	-	21,627	21,627	6,796
Operating leases and rentals	-	-	149,301	149,301	279,539
Depreciation and amortization expense	-	-	5,633,353	5,633,353	5,934,004
Total expenses	\$ 13,684,781	\$ 4,868,663	\$ 10,199,189	\$ 28,752,633	\$ 25,830,779

**Mass Transportation Authority
Enterprise Fund
Nonoperating Revenues
For the Years Ended September 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Property tax revenue	\$ 8,878,619	\$ 4,804,480
State of Michigan operating grants:		
Urban operating assistance	5,109,089	5,109,089
Non-urban operating assistance	304,808	331,312
Operating assistance 1999 reconciliation	-	(98,964)
Project Zero	380,628	918,230
Job Access	1,526,738	743,445
Capital grants used for operations	259,764	834,144
Amtrack marketing	85,664	-
Federal security/emergency management	10,841	-
Specialized services	259,506	283,971
Total state operating grants	<u>7,937,038</u>	<u>8,121,227</u>
Federal operating grants:		
Job Access	1,526,738	743,445
Section 5311 operating assistance	81,167	80,045
Capital grants used for operations	3,548,311	3,336,575
FTA Section 8 - Ridership study	53,137	22,704
Federal security/emergency management	228,171	1,880
Total federal operating grants	<u>5,437,524</u>	<u>4,184,649</u>
Loss on sale of capital asset	(4,011)	57,083
Interest income	18,958	3,994
Total nonoperating revenues	<u>\$ 22,268,128</u>	<u>\$ 17,171,433</u>

Mass Transportation Authority
Enterprise Fund
Schedule of Expenses by Contract and General Operations
For the Year Ended September 30, 2005
With Comparative Totals For the Year Ended September 30, 2004

	<u>Non-urban</u>	<u>Project Zero</u>	<u>Job Access</u>
Labor	\$ 357,429	\$ 170,788	\$ 1,377,746
Fringe benefits	209,108	99,047	771,378
Other services	31,152	17,313	134,433
Materials and supplies consumed	130,468	62,290	261,210
Utilities	21,391	10,145	80,067
Casualty and liability costs	28,858	13,889	91,226
Taxes and fees	9	1	35
Miscellaneous expense	5,506	2,647	281,727
Interest expense	3,795	1,896	19,232
Leases and rentals		2,612	36,422
Depreciation and amortization	5,282	-	-
Total expenses	<u>\$ 792,998</u>	<u>\$ 380,628</u>	<u>\$ 3,053,476</u>

Urban	Total Operations	Specialized Services	Total System	
			2005	2004
\$ 8,400,919	\$ 10,306,882	\$ -	\$ 10,103,755	\$ 8,802,937
4,912,676	5,992,209	-	5,901,324	5,213,104
735,444	918,342	259,506	1,292,153	1,096,666
3,064,972	3,518,940	-	3,715,811	2,600,066
502,747	614,350	-	604,666	628,904
678,242	812,215	-	704,092	1,066,015
214	259	-	257	6,015
129,417	419,297	-	540,653	142,965
89,187	114,110	-	107,268	60,564
124,136	163,170	-	149,301	279,539
5,628,071	5,633,353	-	5,633,353	5,934,004
\$ 24,266,025	\$ 28,493,127	\$ 259,506	\$ 28,752,633	\$ 25,830,779

**Mass Transportation Authority
Maximum Reimbursement Computation of
State Bus Operating Assistance
For the Year Ended September 30, 2005**

State operating assistance - Urban

Operations expenses:

Labor	\$ 10,103,755
Fringe benefits	5,901,324
Other services	1,292,153
Materials and supplies	3,715,811
Utilities	604,666
Casualty and liability costs	704,092
Taxes	257
Miscellaneous expense	540,653
Interest expense	107,268
Leases and rentals	149,301
Depreciation and amortization	<u>5,633,353</u>

Total operations expenses

28,752,633

Less ineligible expenses:

Non-urban operating assistance	792,998
Project Zero	380,628
Job Access	3,053,476
Specialized Services	259,506
Federal security/emergency management	228,171
Capital grants used for operations	3,808,075
FTA Section 8-Ridership Study	28,380
Related expenses	47,074
Depreciation and amortization	5,631,891
Miscellaneous	50,521
State interest expense	<u>21,627</u>

Total ineligible expenses

14,302,347

Net eligible expenses - Urban

\$ 14,450,286**State operating assistance - Urban**

Greater of:

Statutory allowed (32.438220889% of eligible expenses)	4,687,416	
Statutory floor - 1997 resources available per MDOT	5,109,089	
Grant award	<u>5,109,089</u>	5,109,089

State programmed receipts - Urban

5,109,089

Project over payment - Urban

\$ - 0 -

(continued)

**Mass Transportation Authority
Maximum Reimbursement Computation of
State Bus Operating Assistance (continued)
For the Year Ended September 30, 2005**

State operating assistance - Non-urban

Non-urban eligible operating expenses	<u>\$ 792,998</u>	
	<u>Non-urban (State)</u>	<u>Section 5311 (Federal)</u>
Grant limits:		
Non-urban - 38.437574823% of eligible expenses	\$ 304,808	\$ -
Non-urban - 12.40% of eligible expenses	-	98,332
Net eligible expense	304,808	98,332
Grant award	304,808	81,167
Project under payment - Non-urban	<u>\$ - 0 -</u>	<u>\$ 17,165</u>

**Mass Transportation Authority
Detail of Ineligible Items - State
For the Year Ended September 30, 2005**

DEPRECIATION AND AMORTIZATION

Depreciation expense of public operations is ineligible according to UMTA C 9050.1, Page A-4 for all capital assets purchased from federal, state, or local funds. Amortization expense of assets purchased through capital leases which are being repaid from state and federal funds has also been included as an ineligible expense. For capital assets purchased from Authority funds, depreciation is an eligible expense for state operating assistance purposes and amounted to \$1,462.

MISCELLANEOUS

The following expenditures are not eligible for operating assistance:

<u>Description</u>	<u>Amount</u>
Dues	\$ 4,151
Fines and penalties	4,370
Lobbying	<u>42,000</u>
Total miscellaneous	<u>\$ 50,521</u>

The Authority paid \$44,770 in connection with annual dues to the American Public Transit Association and Michigan Public Transit Association. It has been determined that these organizations devote approximately 11 and 6.9 percent, respectively, of their activities to influencing legislation, which is not eligible for reimbursement according to OMB Circular A-87. The ineligible portion of dues paid to Transit Association amounted to \$4,151 for the year.

RELATED EXPENSES - MISCELLANEOUS REVENUE

In addition, costs associated with miscellaneous revenue are ineligible expenses. See Schedule I for these costs.

INTEREST EXPENSE

Non-state interest expense on short-term debt obligations after deducting all interest income is eligible. (Interest expense paid to the State of Michigan of \$21,627 is totally ineligible.)

**Mass Transportation Authority
Vehicle Miles
For The Year Ended September 30, 2005
(Unaudited)**

	Public Transportation <u>Mileage</u>	Regional <u>Mileage</u>	Specialized Services Section 5311 <u>Mileage</u>
<u>Fixed Route</u>			
First Quarter	520,118	201,987	-
Second Quarter	508,451	198,007	-
Third Quarter	505,289	197,526	-
Fourth Quarter	520,566	194,119	-
Total Fixed Route	2,054,424	791,639	-
<u>Demand Response</u>			
First Quarter	1,170,419	-	112,245
Second Quarter	1,246,103	-	123,460
Third Quarter	1,362,682	-	133,708
Fourth Quarter	1,270,290	-	123,759
Total Demand Response	5,049,494	-	493,172
Total Operation	7,103,918	791,639	493,172

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

Independent Auditors' Report on Internal Control Over Financial Reporting on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Mass Transportation Authority
Flint, Michigan

We have audited the financial statements of Mass Transportation Authority, Flint, Michigan, as of and for the year ended September 30, 2005, and have issued our report thereon dated February 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Mass Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mass Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of Mass Transportation Authority, federal awarding agencies and pass-through entities and is not intended for and should not be used by anyone other than these specified parties.

Plante & Moran PLLC

February 3, 2006

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Independent Auditors' Report on Compliance with Requirements
Applicable to each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

Board of Directors
Mass Transportation Authority
Flint, Michigan

Compliance

We have audited the compliance of Mass Transportation Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. Mass Transportation Authority's major federal programs are identified in the summary of auditor's results of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Mass Transportation Authority's management. Our responsibility is to express an opinion on Mass Transportation Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mass Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mass Transportation Authority's compliance with those requirements.

In our opinion, Mass Transportation Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Internal Control over Compliance

The management of Mass Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Mass Transportation Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations we consider to be material weaknesses.

This report is intended solely for the information and use of Mass Transportation Authority, federal awarding agencies and pass-through entities and is not intended for and should not be used by anyone other than these specified parties.

Plante & Moran PLLC
February 3, 2006

**Mass Transportation Authority
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2005**

	<u>Federal CFDA Number</u>	<u>Federal Project Number</u> ⁽²⁾	<u>Total Federal Allocation</u>
<u>U.S. Department of Transportation</u>			
Federal Transit Capital Investment	20.500 ⁽¹⁾	MI-03-0169	\$ 3,498,216
Federal Transit Capital Investment	20.500 ⁽¹⁾	MI-03-0174	495,157
Federal Transit Capital Investment	20.500 ⁽¹⁾	MI-03-0187	1,039,530
Federal Transit Capital Investment	20.500 ⁽¹⁾	MI-03-0197	1,967,357
Federal Transit Capital Investment	20.500 ⁽¹⁾	MI-03-0211	2,427,184
Federal Transit Capital Investment	20.500 ⁽¹⁾	MI-03-0222	633,936
Federal Transit Capital Investment	20.500 ⁽¹⁾	MI-03-0223	<u>1,901,805</u>
			<u>11,963,185</u>
Federal Transit Formula	20.507 ⁽¹⁾	MI-90-X304	3,815,544
Federal Transit Formula	20.507 ⁽¹⁾	MI-90-X378	4,127,316
Federal Transit Formula	20.507 ⁽¹⁾	MI-90-X384	1,798,941
Federal Transit Formula	20.507 ⁽¹⁾	MI-90-X405	4,238,849
Federal Transit Formula	20.507 ⁽¹⁾	MI-90-X417	2,818,928
Federal Transit Formula	20.507 ⁽¹⁾	MI-90-X432	4,019,760
Federal Transit Formula	20.507 ⁽¹⁾	MI-90-X466	3,334,758
Federal Transit Formula	20.507 ⁽¹⁾	MI-90-X475	1,654,346
Federal Transit Formula	20.507 ⁽¹⁾	MI-90-X481	512,000
Federal Transit Formula	20.507 ⁽¹⁾	MI-40-X002-00	35,000
Federal Transit Formula	20.507 ⁽¹⁾	MI-26-7005-01	<u>1,659,260</u>
			<u>28,014,702</u>
Total Capital Assistance			<u>39,977,887</u>
Job Access – Reverse Commute	20.516	MI-37-X019	<u>1,526,738</u>
Total Direct Assistance			<u>41,504,625</u>
Passed through State of Michigan Department of Transportation			
Formula grants for other than urbanized areas	20.509	MI-90-X035	<u>43,392</u>
Total Federal Assistance			<u>\$41,548,017</u>

NOTES:

- (1) Denotes major program.
- (2) The schedule of expenditures has been prepared on the accrual basis.
- (3) Amounts do not include totals for grants received and deobligated during the fiscal year presented.

<u>Revenue Recognized This Audit Period</u>	<u>Disbursements/ Expenditures During This Audit Period</u>	<u>Deobligated</u>	<u>Cumulative Disbursements/ Expenditures</u>	<u>Amount Remaining⁽³⁾</u>
\$ 10,940	\$ 10,940	\$ -	\$ 3,498,216	\$ -
103,249	103,249	-	201,525	293,632
2,400	2,400	-	325,340	714,190
94,212	94,212	-	458,195	1,509,162
119,724	119,724	-	119,724	2,307,460
-	-	-	-	633,936
-	-	-	-	1,901,805
330,525	330,525	-	4,603,000	7,360,185
8,510	8,510	-	3,815,544	-
40,616	40,616	-	4,127,316	-
325	325	-	1,747,424	51,517
755,266	755,266	-	4,070,526	168,323
380,405	380,405	-	2,404,191	414,737
547,287	547,287	-	3,095,993	923,767
144	144	-	35,000	-
228,027	228,027	-	228,027	1,431,233
2,554,963	2,554,963	-	2,554,963	779,795
88,606	88,606	-	88,606	1,565,740
-	-	-	-	512,000
4,604,149	4,604,149	-	22,167,590	5,847,112
4,934,674	4,934,674	-	26,770,590	13,207,297
1,526,738	1,526,738	-	1,526,738	-
6,461,412	6,461,412	-	28,297,328	13,207,297
43,364	43,364	-	43,364	28
\$6,504,776	\$6,504,776	\$ -0-	\$28,340,692	\$13,207,325

**Mass Transportation Authority
Schedule of Findings and Questioned Costs
Year Ended September 30, 2005**

Part I

1. Did the auditee expend more than \$25,000,000
in federal awards during the fiscal year? Yes X No
2. If answer to question 1 was yes, indicate which
federal agency provided the predominant amount
of direct funding. _____

Part II – Financial Statements

Type of auditor's report issued: Unqualified

Going concern explanatory paragraph included Yes X No

Internal control over financial reporting:
Material weakness(es) identified? Yes X No
Reportable condition(s) identified
not considered to be material weaknesses? Yes X None reported

Noncompliance material to financial statements
noted? Yes X No

Findings related to the financial statements reported in accordance with *Governmental Auditing Standards*:
None

Part III – Federal Programs

Type of auditor's report issued on compliance
for major programs: Unqualified

Does the auditor's report include a statement
that the auditee's financial statements include
departments, agencies, or other organizational
units expending greater than \$500,000 in Federal
awards that have separate A-133 audits which are
not included in this audit? Yes X No

Dollar threshold used to distinguish
between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee X Yes No

(continued)

**Mass Transportation Authority
Schedule of Findings and Questioned Costs – (continued)
Year Ended September 30, 2005**

Part III – Federal Programs – (continued)

Is a reportable condition disclosed for any major program? Yes X No

Is any reportable condition reported as a material weakness? Yes X No

Are any known questioned costs reported? Yes X No

Was a Summary Schedule of Prior Audits Findings Prepared? X Yes No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>20.500</u>	<u>Capital Assistance</u>
<u>20.507</u>	<u>Capital and Operating Assistance</u>

Findings and questioned costs relating to federal awards:

None

**Mass Transportation Authority
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2004**

There were no prior year audit findings.

February 6, 2006

To the Board of Directors
Mass Transportation Authority
1401 South Dort Highway
Flint, Michigan 48503

We have recently completed our audit of the financial statements of the Mass Transportation Authority (Authority) for the year ended September 30, 2005. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the Board, Management, and others within the Authority.

Auditor's Responsibility under Generally Accepted Auditing Standards

We conducted our audit of the financial statements of the Mass Transportation Authority in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. The following paragraphs explain our responsibilities under those standards.

Management has the responsibility for adopting and accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help ensure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient, competent, evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

Auditor's Responsibility for Testing and Reporting on Internal Controls and Compliance with Laws and Regulations

In the audit process, we gain an understanding of the internal control structure of an entity as well as the laws and regulations having a direct and material affect on the entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of company documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the entity's internal control structure or the entity's compliance with laws and regulations.

The limited purpose of these tests in a financial statement audit may not meet the needs of some users of auditors' reports who require additional information on internal controls and on compliance with laws and reporting on internal controls and compliance to supplement the financial statement audit's coverage of these areas. In accordance with regulatory requirements covering federal (awards) financial assistance, supplemental testing of and reporting on internal controls and compliance was performed. Nevertheless, even after performing and reporting the results of these additional tests of internal controls and compliance required by laws and regulations, some reasonable needs of report users still may be unmet. We may meet these needs by performing further tests of internal controls and compliance with laws and regulations in either of two ways:

1. Supplemental (or agreed-upon) procedures, or
2. Examination, resulting in an opinion

For the year ended September 30, 2005, we were not engaged nor did we perform the additional services listed in 1 and 2 above.

During the audit, we noted a matter involving internal control and its operations that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions include matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Mass Transportation Authority's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we believe to be a material weakness:

Bank ACH Transfers

We noted that the lead accountant prepares the bank reconciliations and also has the ability to make ACH transfers. We suggest these responsibilities be reviewed and the lead accountant not have both these duties.

Significant Accounting Policies

Auditing standards call for us to inform you regarding the initial selection of, and change in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There were no significant unusual transactions or controversial or significant emerging areas for which new accounting policies were needed.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Auditing standards call for us to report to you on accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments. Further, we are expected to report to you about the process used by management in formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates. We noted no matters related to sensitive accounting estimates.

Audit Adjustments

Auditing standards call for us to report to you significant audit adjustments that, in our judgment, may not have been detected except through the auditing procedures we performed. Significant adjustments were made to record self-insurance payables, capital lease, and capital lease payable.

Auditing standards also require us to inform you about uncorrected possible financial statement adjustments identified by us during the current engagement and pertaining to the latest period presented, which were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. There were no unrecorded adjustments as all proposed adjustments were posted to the financial statements.

Other Information in Documents Containing Audited Financial Statements

When our audit report and the audited financial statements are included in a client document, we have a responsibility to read that document and consider whether anything therein is inconsistent with the information in the audited financial statements. It is our understanding that the audited financial statements are currently no

expected to be included in any other document. As indicated above, the purpose is solely to consider whether the information is inconsistent with the audited financial statements. We will not audit any of the information outside the financial statements and cannot provide you with any assurance as to its accuracy.

Disagreements with Management

In the process of conducting an audit, various matters will be discussed with management. In that process, significant differences of opinion may arise regarding the scope of the audit, the application of accounting principles, disclosures to be included in the Authority's financial statements, or the working of our report. There were no disagreements with management over the application of accounting principles or the basis for management's judgments about accounting estimates. Additionally, there were no disagreements regarding the scope of the audit, disclosures to be included in the financial statements, or the wording of the auditor's report.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit. However, additional time was incurred during the 2005 audit to assist the Authority staff in reconciling fixed asset entries in the depreciation software.

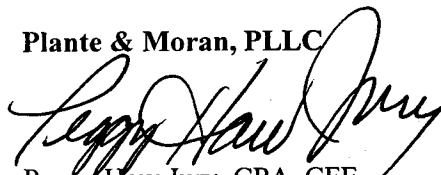
Consultations with Other Independent Accountants

When management consults with other accountants about significant accounting and auditing matters, auditing standards require that we present our views on those matters to you. To our knowledge, there were no such consultations with other accountants.

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Plante & Moran, PLLC



Peggy Haw Jury, CPA, CFE
Partner